From the Washington Business Journal:
http://www.bizjournals.com/washington/print-edition/2016/04/29/the-perseverance-award-the-darcy-and-the-flats.html

Best Real Estate Deals of 2015

The Perseverance Award: The Darcy and The Flats at Bethesda Avenue

Apr 29, 2016, 6:00am EDT

JOANNE S. LAWTON

Monty Hoffman and Jane Galbraith Mahaffie, principal at StonebridgeCarras, at the downtown Bethesda public-private partnership site.

Today, a luxury mixed-use development sits prominently at the corner of Bethesda and Woodmont avenues in downtown Bethesda. It is the result of a decade-long process that, though ultimately successful, was fraught with obstacles and uncertainty.

We now know this project as The Darcy and The Flats at Bethesda Avenue. It began as Lot 31.

What were formerly Montgomery County-owned parking lots at 7171 and 7170 Woodmont Ave. would one day be transformed into restaurants and retail, luxury condominiums and apartments, underground parking, and a pedestrian-friendly addition to the community, as part of a public-private partnership between the county and developers.

That day came in 2015, 11 years after that surface lot was put out to bid.

The journey started in 2004, when the Montgomery County Department of Transportation issued a request for proposals for the public-private partnership. The surface parking area that occupied the space accommodated 277 cars and sat in the heart of the neighborhood’s downtown, adjacent to the booming Bethesda

Row. The goal: increase the county's tax base and maximize the land's potential.

Bethesda-based **StonebridgeCarras LLC** and D.C.-based **PN Hoffman** started working as part of a joint venture when the county named them project developers in 2005. They had been contenders along with 14 others for the site, in what PN Hoffman CEO Monty Hoffman describes as "a very competitive process."

"It was one of our most challenging projects," Hoffman says, "and it was a sort of divide-and-conquer relationship. We had lots of talent and resources, which is what it took to complete it."

The team, which was affectionately dubbed "Stoneman" (a fusion of both developer names), had worked on a couple of other projects together and both developers were optimistic about the prime location.

When they started, they had a plan to triple the number of parking spots underground. They had the air rights for a mixed-use building with condominiums and affordable housing. They had a commitment to utilize the land at the community's nerve center.

The project was inherently complex, with diverse components: tall buildings with residential and retail space, an underground garage with public and private parking, and a need to rebuild the implicated segment of Woodmont. The P3 made execution tricky, too, as it required involved documentation, collaboration with the public sector and numerous approvals.

But the developers cleared these hurdles. Then the recession hit.

The economic crisis affected the team's design, permitting and financing. A plan that began as entirely condominiums was reconfigured as a combination of condos and rental apartments."

Financing became iffy. But the developers believed in the real estate, despite the uncertainty. "Because this is such a precious site," Hoffman says, "we felt like we needed to make it work."

They were "confident but concerned," focused on surviving and pushing the project to keep advancing, says Doug Firstenberg, principal of StonebridgeCarras.

“Honestly, it was a lot of faith — there was no science, there were no spreadsheets that could tell you when the world was going to turn,” he says. “We still invested millions of dollars during that downturn to position the property, but we convinced ourselves, and we were able to convince investors and the county, it made sense, and everybody stuck with us.”

One of the toughest times was 2009, when they “barely were able to finance” another building: a fully pre-leased office building for the federal government with a 15-year lease, according to Firstenberg. “And you’re trying to figure out how you’re going to finance a public-private partnership with tremendous complexity,” he says. “That was probably the lowest moment.”

But a necessary infrastructure piece of the project came as a blessing in disguise. Verizon had to relocate about 3,000 phone lines and four major fiber networks in a $2.5 million year-long process. When the work was complete, the markets were showing signs of recovery. It had bought them time while conditions improved.

They moved forward, finally breaking ground in April 2012.

Three years of construction followed. Woodmont, a major Bethesda artery that dissected the site, was rebuilt — after a two-year closure — as a bridge structure over portions of the new garage. And the last 25 feet of excavation required six months of blasting solid rock.

“It turned out to be one of the first complex projects financed out of the Great Recession,” Firstenberg says. “So hindsight being 20/20, we were right to keep the project moving forward, because it was able to come out of the ground first, which gave us great traction to condo buyers at a time when people thought condos were beyond crazy, and we had great pre-leasing with retail.”

The $215 million-dollar project was completed in 2015. It comprises more than 900,000 square feet on 3.3 acres, including 40,000 square feet of retail space with PassionFish, Silver, Chop’t, Paul Bakery and Pottery Barn open. It’s likely to be 100 percent leased by June, according to Hoffman, pending one remaining prospective tenant. Rents topped $100 per square foot.

The Darcy has 88 condos, with prices ranging from $800 to $1,200 per square foot; only about a dozen remain unsold. The Flats contains 162 units, with rents averaging from $3.45 to $5 per square foot. They're 67 percent leased and should be filled completely by July or August, he says.

"If there was ever a project that took an entire team to really build, this was it," Firstenberg says. "It's not the biggest project in the world from a square footage standpoint, but given its complexity, it really did take a tremendous 'Stoneman' team to pull it off."

The Darcy & The Flats at Bethesda Avenue

Description: Delivery of residential and retail project
Addresses: 7171 and 7170 Woodmont Ave., Bethesda
Developers: StonebridgeCarras and PN Hoffman
General contractor: Clark Construction
Architect: SK&I Architecture
Size: 88 condos (Darcy); 162 apartments (Flats)
Estimated cost: $215 million

Sara Gilgore
Digital Producer
Washington Business Journal